

SECURITIES AND EXCHANGE COMMISSION

Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

Commission file number 2-80339

OHIO
 other jurisdiction of
 on or organization)

34-1371693
(I.R.S. Employer Identification No)

44406
(Zip Code)

Not applicable
(Former name, former address and former fiscal year,
if changed since last report)

Yes ☒ No ☐

Class	Outstanding at September 30, 2001
Common Stock, No Par Value	11,824,280 shares

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CONSOLIDATED BALANCE SHEETS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

	(In Thousands of Dollars)	
	September 30, 2001	December 31, 2000
ASSETS		
Cash and due from banks	\$ 22,774	\$ 23,350
Federal funds sold	28,728	11,358
TOTAL CASH AND CASH EQUIVALENTS	51,502	34,708
Long-term interest bearing deposits	0	99
Securities available for sale	139,040	127,761
Loans	442,164	450,711
Less allowance for credit losses	6,487	6,115
NET LOANS	435,677	444,596
Premises and equipment, net	12,533	12,549
Other assets	5,577	6,409
	\$644,329	\$626,122
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits (all domestic):		
Noninterest-bearing	\$ 46,965	\$ 48,935
Interest-bearing	448,455	419,401
TOTAL DEPOSITS	495,420	468,336
U. S. Treasury interest-bearing demand note	780	1,009
Securities sold under repurchase agreements	40,966	39,099
Federal Home Loan Bank advances	28,426	43,575
Other liabilities and deferred credits	2,843	3,270
TOTAL LIABILITIES	568,435	555,289
Stockholders Equity:		
Common Stock — Authorized 25,000,000 shares; issued and outstanding 11,824,280 in 2001 and 11,604,252 in 2000	51,867	49,451
Retained earnings	23,279	22,226
Accumulated other comprehensive income	2,509	372
Treasury stock, at cost; 141,690 shares in 2001 and 87,835 in 2000	(1,761)	(1,216)
TOTAL STOCKHOLDERS EQUITY	75,894	70,833
	\$644,329	\$626,122

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

(In Thousands except Per Share Data)				
	For the Three Months Ended Sept. 30, 2001	Sept. 30, 2000	For the Nine Months Ended Sept. 30, 2001	Sept. 30, 2000
INTEREST INCOME				
Interest and fees on loans	\$ 9,274	\$ 9,470	\$28,064	\$27,797
Interest and dividends on securities:				
Taxable interest	1,381	1,482	4,167	4,410
Nontaxable interest	364	292	966	881
Dividends	226	192	684	357
Interest on federal funds sold	245	262	679	767
TOTAL INTEREST INCOME	11,490	11,698	34,560	34,212
INTEREST EXPENSE				
Deposits	4,367	4,368	13,323	12,937
Borrowings	818	1,160	2,731	2,880
TOTAL INTEREST EXPENSE	5,185	5,528	16,054	15,817
NET INTEREST INCOME	6,305	6,170	18,506	18,395
Provision for credit losses	270	(65)	810	655
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	6,035	6,235	17,696	17,740
OTHER INCOME				
Service charges on deposit accounts	551	505	1,577	1,410
Investment security gains (losses)	35	(9)	60	(35)
Gain on sale of mortgage loans, net	0	1	0	4
Other operating income	341	318	894	726
TOTAL OTHER INCOME	927	815	2,531	2,105
OTHER EXPENSES				
Salaries and employee benefits	2,260	2,225	6,639	6,684
Net occupancy expense of premises	272	209	801	696
Furniture and equipment expense, including depreciation	296	299	883	827
Intangible and other taxes	214	180	641	558
Other operating expenses	1,135	1,262	3,382	4,020
TOTAL OTHER EXPENSES	4,177	4,175	12,346	12,785
INCOME BEFORE FEDERAL INCOME TAXES	2,785	2,875	7,881	7,060
FEDERAL INCOME TAXES	776	846	2,269	2,085
NET INCOME	\$ 2,009	\$ 2,029	\$ 5,612	\$ 4,975
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gains on securities	1,075	790	2,137	776
COMPREHENSIVE INCOME	\$ 3,084	\$ 2,819	\$ 7,749	\$ 5,751
* NET INCOME PER SHARE	\$ 0.17	\$ 0.17	\$ 0.48	\$ 0.43

* Restated to reflect weighted average shares outstanding adjusted for stock dividends and merger accounted for as pooling of interests.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

	(In Thousands of Dollars)	
	Nine Months Ended	
	September 30, 2001	September 30, 2000
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	\$ 35,921	\$ 35,632
Fees and commissions received	2,543	2,122
Interest paid	(16,261)	(15,925)
Cash paid to suppliers and employees	(12,022)	(12,878)
Income taxes paid	(2,434)	(2,111)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,747	6,840
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in interest-bearing time deposits maturing in more than 90 days	99	99
Proceeds from maturities and repayments of securities available for sale	20,874	16,115
Proceeds from sales of securities available for sale	8,144	2,451
Purchases of securities available for sale	(37,488)	(28,725)
Net decrease (increase) in loans made to customers	7,149	(13,021)
Purchases of premises and equipment	(575)	(462)
NET CASH USED IN INVESTING ACTIVITIES	(1,797)	(23,543)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	27,191	(9,940)
Net increase (decrease) in short-term borrowings	1,596	(3,228)
Net increase (decrease) in Federal Home Loan Bank borrowings	(15,150)	23,645
Net increase in federal funds purchased	0	1,400
Purchase of Treasury Stock	(545)	(1,085)
Dividends paid	(4,664)	(3,055)
Proceeds from sale of common stock	2,416	2,196
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,844	9,933
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,794	(6,770)
CASH AND CASH EQUIVALENTS		
Beginning of period	34,708	41,026
End of period	\$ 51,502	\$ 34,256
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATIONS		
Net income	\$ 5,612	\$ 4,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	549	637
Amortization and accretion	1,647	1,377
Provision for credit losses	810	655
(Gain) Loss on sale of investment securities	(60)	35
Other	(811)	(839)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,747	\$ 6,840

FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management Representation:

The financial statements for September 30, 2001 and 2000 have been prepared by management without audit and, therefore, have not been certified by our Independent Certified Public Accountants.

In the opinion of the management of the registrant, the accompanying consolidated financial statements for the nine month period ending September 30, 2001 and 2000 include all adjustments, consisting of only normal recurring adjustments necessary for a fair statement of the results for the periods.

		(In Thousands of Dollars) Nine Months Ended September 30, 2001
Stockholders Equity		
Common Stock		
Balance 1/1/01		49,451
273,883 shares sold		2,416
Balance 9/30/01		51,867
Retained Earnings		
Balance 1/1/01		22,226
Net Income		5,612
Dividends Declared: \$.39 Cash dividends on common stock		(4,559)
Balance 9/30/01		23,279
Accumulated Other Comprehensive Income		
Balance 1/1/01		372
Net change in unrealized appreciation on available for securities, net of income taxes		2,137
Balance 9/30/01		2,509
Treasury Stock, At Cost		
Balance 1/1/01		(1,216)
Shares Purchased		(545)
Balance 9/30/01		(1,761)
Total Stockholders Equity at 9/30/01		75,894

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The following financial review presents an analysis of the assets and liability structure of the Corporation and a discussion of the results of operations for each of the periods presented in this quarterly report of liquidity, capital and credit quality. Certain statements in this report that relate to Farmers National Banc Corp.’s plans, objectives, or future performance may be deemed to be forward-looking statements within the Private Securities Litigation Reform Act of 1995. Such statements are based on management’s current expectations. Actual strategies and results in future periods may differ materially from those currently expected because of various risks and uncertainties.

Among the important factors that could cause actual results to differ materially are interest rates, changes in the mix of the company’s business, competitive pressures, general economic conditions and the risk factors detailed in the company’s other periodic reports and registration statements filed with the Securities and Exchange Commission.

Results of Operations

The Corporation’s net income for the first nine months of 2001 was \$5.612 million, or \$.48 per share, which is a 12.8% increase compared with the \$4.975 million, or \$.43 per share earned during the same period last year. Return on average assets and return on average equity for the first nine months of 2001 were 1.18% and 10.27% respectively, compared to 1.08% and 9.90% for the same period in 2000.

The increase in net income for the first nine months of 2001 was the result of increases in other income and lower levels of noninterest expense. The Corporation’s net interest income was slightly higher in 2001 compared to the same period in 2000. The slight increase in average loan balances was offset by a decrease in overall yields. The Corporation’s average balance of investment securities has increased 6.79% from September, 2000 to September, 2001. Although this growth has increased income on securities by \$81 thousand or 1.26% over the same time period, it was partially offset by a decrease in the yield on investment securities. Interest expense on deposits and borrowings is 1.50% higher for the first nine months of 2001 compared to the first nine months of 2000. This is the result of both an increase of \$386 thousand in interest expense on deposits and an decrease of \$149 thousand in interest expense on borrowings. The cost of time deposits increased from 5.56% in 2000 to 5.70% in 2001, while borrowing costs decreased from 5.62% in 2000 to 5.06% in 2001.

Provision for credit losses of \$270 thousand for the quarter ended September 30, 2001 was \$335 thousand higher than the \$65 thousand credit reported in 2000. The provision was lower in 2000 primarily because of recoveries received in a favorable insurance settlement.

Other income increased 20.24% from \$2.105 million in 2000 to \$2.531 million in 2001. This growth is the result of an increase in service charges related to deposit accounts coupled with an increase in other operating income. The Corporation’s total other expenses for the first nine months of 2001 decreased 3.43% from \$12.785 million in 2000 to \$12.346 million in 2001. The decrease in other operating expenses is due primarily to the acquisition of Security Financial Corporation on November 30, 2000. The merger provided cost savings though the consolidation of operations. Management will continue to closely monitor noninterest expenses.

Results of Operations (Continued)

On November 30, 2000, Security Financial Corp. merged with and into Farmers National Banc Corp. The merger was accounted for under the pooling-of-interests method. The consolidated financial statements for 2000 have been reclassified to conform with the presentation for 2001. Such reclassifications had no effect on net results from operations.

Liquidity

The Corporation maintains, in the opinion of management, liquidity sufficient to satisfy depositors' requirements and meet the credit needs of customers. The Corporation depends on its ability to maintain its market share of deposits as well as acquiring new funds. The Corporation's ability to attract deposits and borrow funds depends in large measure on its profitability, capitalization and overall financial condition.

Principal sources of liquidity for the Corporation include assets considered relatively liquid such as short-term investment securities, federal funds sold and cash and due from banks.

Cash flows generated from operating activities increased to \$7.747 million compared to \$6.840 million for the same period in 2000. This increase of \$907 thousand is mainly the result of a decrease in cash paid to suppliers and employees. Net cash flows used in investing activities amounted to \$1.797 million in 2001 compared to \$23.543 million for the same period in 2000. Most of the current period's decrease came from repayments of loans made to customers outpacing new loan growth.

Net cash flows provided by financing activities were \$10.844 million in 2001 compared to \$9.933 million in 2000. In 2001, \$27.191 million was generated from increases in deposits and \$15.150 million was used to repay Federal Home Loan Bank borrowings.

Capital Resources

The capital management function is a continuous process which consists of providing capital for both the current financial position and the anticipated future growth of the Corporation. As of September 30, 2001, the corporation's total risk-based capital ratio stood at 17.83%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 16.56% and 11.40%, respectively. Regulations established by the Federal Deposit Insurance Corporation Improvement Act require that for a bank to be considered well capitalized, it must have a total risk-based capital ratio of 10%, a Tier I risk-based capital ratio of 6% and a Tier I leverage ratio of 5%.

Loan Portfolio

The following shows the composition of loans at the dates indicated:

	(In Thousands of Dollars)	
	Sept. 30, 2001	Dec. 31, 2000
Commercial, financial and agricultural	20,163	17,916
Real Estate — mortgage	260,008	267,529
Installment loans to individuals	161,993	165,266
Total Loans	442,164	450,711

The following table sets forth aggregate loans in each of the following categories for the dates indicated:

	(In Thousands of Dollars)	
	Sept. 30, 2001	Dec. 31, 2000
Loans accounted for on a nonaccrual basis	1,564	664
Loans contractually past due 90 days or more as to interest or principal payments (not included in nonaccrual loans above)	1,299	669
Loans considered troubled debt restructurings (not included in nonaccrual or contractually past due above)	0	0

Management knows of no loans not included in the table above where serious doubt exists as to the ability of the borrower to comply with the current loan repayment terms.

The following shows the amounts of contracted interest income and interest income reflected in income on loans accounted for on a nonaccrual basis and loans considered troubled debt restructuring for the periods indicated:

	(In Thousands of Dollars)	
	Sept. 30, 2001	Dec. 31, 2000
Gross interest that would have been recorded if the loans had been current in accordance with their original terms	32	107
Interest income included in income on the loans	0	4

Risk Elements (Continued)

A loan is placed on a nonaccrual basis whenever sufficient information is received to question the collectibility of the loan. Generally, once a loan is placed on a nonaccrual basis, interest that may be accrued and not collected on the loan is charged against earnings.

As of September 30, 2001, there were no concentrations of loans exceeding 10% of total loans which are not disclosed as a category of loans. As of that date also, there are no other interest-earning assets that are either nonaccrual, past due or restructured.

Summary of Credit Loss Experience

The following is an analysis of the allowance for credit losses for the periods indicated:

	(In Thousands of Dollars)	
	Nine Months Ended Sept. 30, 2001	Year Ended Dec. 31, 2000
Balance at beginning of period	6,115	5,778
Loan losses:		
Commercial, financial & agricultural	(39)	(50)
Real estate — mortgage	(21)	(343)
Installment loans to individuals	(776)	(1,250)
	(836)	(1,643)
Recoveries on previous loan losses:		
Commercial, financial & agricultural	0	23
Real estate — mortgage	34	8
Installment loans to individuals	364	1,084
	398	1,115
Net loan losses	(438)	(528)
Provision charged to operations (1)	810	865
Balance at end of period	6,487	6,115
Ratio of net credit losses to average net loans outstanding	.13%	.12%

Summary of Credit Loss Experience (cont'd)

(1) The provision for possible credit losses charged to operating expense is based on management’s judgment after taking into consideration all factors connected with the collectibility of the existing loan portfolio. Management evaluates the loan portfolio in light of economic conditions, changes in the nature and volume of the loan portfolio, industry standards and other relevant factors. Specific factors considered by management in determining the amounts charged to operating expenses include previous credit loss experience, the status of past due interest and principal payments, the quality of financial information supplied by loan customers and the general condition of the industries in the community to which loans have been made.

The allowance for possible credit losses has been allocated according to the amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within the following categories of loans as of the dates indicated.

Types of Loans	(In Thousands of Dollars)	
	Sept. 30, 2001	Dec. 31, 2000
Commercial, financial & agricultural	2,064	549
Real estate — mortgage	1,834	2,878
Installment	2,589	2,688
Total	6,487	6,115

The allocation of the allowance as shown above should not be interpreted as an indication that charge-offs in 2001 will occur in the same proportions or that the allocation indicates future charge-off trends. Furthermore, the portion allocated to each loan category is not the total amount available for future losses that might occur within such categories since the total allowance is a general allowance applicable to the entire portfolio.

The percentage of loans in each category to total loans is summarized as follows:

Types of Loans	Sept. 30, 2001	Dec. 31, 2000
Commercial, financial & agricultural	4.6%	4.0%
Real Estate — mortgage	58.8%	59.3%
Installment loans to individuals	36.6%	36.7%
	100.0%	100.0%

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There are no material changes from the end of the preceding fiscal year that would cause additional disclosure of the bank’s exposure to market risk.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the registrant or its subsidiary is a party, or of which any of their property is the subject, except proceedings which arise in the ordinary course of business. In the opinion of management, pending legal proceedings will not have a material effect on the consolidated financial position of the registrant and its subsidiary.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

The Corporation filed Form S-3 on October 3, 2001. This filing amended the Corporation’s dividend reinvestment plan.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed or incorporated by references as part of this report:

2. Not applicable.

3(i). Not applicable.

3(ii). Not applicable.

4. The registrant agrees to furnish to the Commission upon request copies of all instruments not filed herewith defining the rights of holders of long-term debt of the registrant and its subsidiaries.

10. Not applicable.

11. Not applicable.

15. Not applicable.

18. Not applicable.

- 19. Not applicable.
- 22. Not applicable.
- 23. Not applicable.
- 24. Not applicable.
- 99. Not applicable.

(b) - Reports on Form 8-K

No reports on Form 8-K were filed for the three months ended September 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARMERS NATIONAL BANC CORP.

Dated: November 13, 2001

/s/Frank L. Paden
Frank L. Paden
President and Secretary

Dated: November 13, 2001

/s/Carl D. Culp
Carl D. Culp
Executive Vice President
and Treasurer